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## Poland

## Sugar

## Annual

## 2002

Approved by:

**Wayne Molstad, Agricultural Counselor**

**U.S. Embassy**

Prepared by:

Wlodzimierz Makowski

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### Report Highlights:

**Poland's 2001/02 sugar production fell to its lowest level since 1994. Sugar production is expected to recover slightly in 2002/03 and somewhat stabilize due to provisions of a new sugar law. Sugar exports will remain at low levels for the second year in a row and are expected to only slightly exceed imports. Poland is also entering into important EU accession negotiations this summer possibly up through December 2002 in which it is seeking higher crop, sugar and iso-glucose production quotas than currently recommended by the EU.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Warsaw [PL1], PL

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## Executive Summary

Poland's sugarbeet and sugar production fell again in 2001/02, due to poor weather conditions, to the lowest level since 1994. Sugarbeet production is expected to remain the same in 2002/03. Nevertheless, sugar production will rise slightly in 2002/03 assuming improved weather conditions which will result in higher sugarbeet and sugar yields. Stocks continue to decline. Sugar exports will remain at low levels for the second year in a row and are expected to only slightly exceed imports.

While slumping sugarbeet production continues, the near term situation may somewhat stabilize because of provisions of a new sugar law. The law goes into effect for MY 2002/03 and is intended to stabilize beet production, support farmers, and bring Poland's sugar sector into closer compatibility with EU policy. The medium and long-term extent of beet production and sugar processing will be impacted by upcoming negotiations with the EU about Polish accession which the Government of Poland hopes to achieve by January 2004. Negotiations during which Poland will seek higher production quotas and direct payments are expected to be concluded by December 2002.

## Production

### Sugar Beets PSD Table

PSD Table						
Country	Poland					
Commodity	Sugar Beets				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	340	340	317	317	0	300
Area Harvested	333	333	317	317	0	300
Production	13145	13145	12500	11364	0	11400
TOTAL SUPPLY	13145	13145	12500	11364	0	11400
Utilization for Sugar	13145	13145	12500	11364	0	11400
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	13145	13145	12500	11364	0	11400

**Centrifugal Sugar PS&D Table**

PSD Table						
Country	Poland					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
Beginning Stocks	189	189	199	243	169	182
Beet Sugar Production	2152	2188	1900	1685	0	1750
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	2152	2188	1900	1685	0	1750
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	50	50	50	70	0	70
TOTAL Imports	50	50	50	70	0	70
TOTAL SUPPLY	2391	2427	2149	1998	169	2002
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	450	445	250	75	0	100
TOTAL EXPORTS	450	445	250	75	0	100
Human Dom. Consumption	1726	1723	1714	1725	0	1730
Feed Dom. Consumption	16	16	16	16	0	16
TOTAL Dom. Consumption	1742	1739	1730	1741	0	1746
Ending Stocks	199	243	169	182	0	156
TOTAL DISTRIBUTION	2391	2427	2149	1998	0	2002

**-Beet Production:**

Poland's 2002/03 sugar beet crop is forecast to remain the same as in 2001/02, the lowest level since 1994. It is expected that beet area will further decline in 2002/03, to the lowest level in over 30 years, due to unclear ownership status of a large group of Polish sugar refineries. Reduced area will, however, be somewhat compensated for by forecast increased yields due to assumed more normal weather conditions compared to poor weather experienced the crop season before.

**-Sugar Production:**

Poland is Europe's third largest sugar producer after France and Germany. The Polish government supports the refining industry through enforced production quotas, price supports, high tariffs on imported sugar and export subsidies. Sugar production in MY 2002/03 is projected to increase almost four percent due to anticipated higher

sugar yields. The forecast sugar production will be only 70,000 tons of white sugar (76,090 tons of raw sugar equivalent) larger than production A quota (allocated for the local market), which means that there will be little left to fulfill 104,400 tons of white sugar (113,482 tons of raw sugar) quota B (allocated for subsidized exports).

Unfavorable weather conditions were responsible for significantly lower beet and sugar yields in MY 2001/02 which resulted in 23 percent smaller sugar production (see PL2001, dated 1/10/02). Reduced production resulted in much smaller sugar exports and will reduce sugar stocks.

#### **-New Law and Quota Levels:**

A new Sugar Market Regulation law governing the sugar industry was approved by the parliament in 2001 (see "policy" section and PL2002, dated 1/16/2002). The new law will support interests of local sugar beet farmers and the sugar industry creating rather stable production conditions while there is no significant change anticipated in sugar production levels.

The new law requires the Council of Ministers to determine production quotas each year. Separate quotas are set for domestic consumption and for export. Quota A is established for domestic sugar sales while quota B is for subsidized exports. All sugar produced exceeding these quotas is called Production C, which can not be sold on the local market but only exported without subsidies. The Agricultural Market Agency (AMA) of the Ministry of Agriculture is responsible for government intervention on the sugar market and for strategic sugar stocks.

Sugar production quotas for the forecast 2002/03 year were set based on the new law. The white sugar A quota production is 1,673,980 tons (equivalent of 1.540 MMT white sugar) which is the same as the A quota for the current MY. For the first time there was announced an iso-glucose production quota which for MY 2002/03 A quota production is 40,000 metric tons of dry product in 42% iso-glucose solution. Also, the total subsidized sugar exports (quota B) for CY 2003 is the same as it has been since CY 2000. However, the new 2002/03 quotas are split between sugar and iso-glucose at 100,000 tons of white sugar (108,700 tons raw sugar equivalent) and 4,400 tons of iso-glucose (dry product, in 42% concentrate solution) at an annual allocation rate. The combined sugar and iso-glucose subsidized export B quotas are equivalent to 104,400 tons of white sugar which is the same level the B quota has been since CY 2000.

#### **Quota Category Table**

quota A	quota B	product C
- domestic consumption; - allocated for MY (Jul-June*)	- domestic consumption or - export with subsidy; - allocated for CY	- production over the quotas; - exported before end of CY - exported in high sugar content product before end of the CY

\* MY was Oct-Sept based on the old law.

## Sugar Quotas (metric tons of refined sugar; raw sugar equivalent in parenthesis)

quota A	quota B	product C output
MY2002/03: 1,540,000 (1,673,900)	part of CY 2003 (till June) 50,000 (54,350)	
MY2001/02: 1,540,000 (1,673,900)	CY 2002 104,400 (113,482)	MY2001/02: 0
MY2000/01: 1,520,000 (1,652,240)	CY 2001 104,400 (113,482)	MY2000/01: 388,600 (422,408)

## Iso-glucose Quotas

(metric tons of dry iso-glucose of 42% fructose concentrate, wet glucose of 42% fructose in parenthesis)

quota A	quota B	product C output
MY2002/03 40,000 (52,000)	part of CY 2003 (till June) 2,200 (2,860)	N/A
MY2001/02 no quota	CY 2002 no quota	N/A
MY2000/01 no quota	CY 2001 no quota	N/A

## Inulin Quotas

quota A	quota B	product C output
MY2002/03 not announced	part of CY 2003 (till June) not announced	N/A
MY2001/02 no quota	CY 2002 no quota	N/A
MY2000/01 no quota	CY 2001 no quota	N/A

**-Price Changes:**

Based on the new law, for the forecast 2002/03 year, the Government of Poland (GOP) set an intervention price for white sugar which will be zlotys 1.80 per kilogram (4.1 zlotys = USD 1), the price which the AMA will pay for white

sugar purchased under the intervention program. AMA also set basic sugar beet prices paid to farmers at zlotys 115 per ton (VAT not included), currently equivalent of 29 USD. According to previous regulations, there were only minimum wholesale prices for sugar at refineries which had to be sold on the local market. The last minimum wholesale sugar price was zlotys 2.0 per kilogram of white sugar (USD 0.49) for the current MY 2001/02. According to some industry opinion, the new law supports farmers by setting a relatively high beet price while the intervention price, if used at this level, will not cover industry sugar production costs and will lead the industry to reduced processing.

### **-Processing Infrastructure:**

Out of 76 sugar refineries in Poland, 32 have foreign capital. The remaining 44 refineries are still owned by the State Treasury. The new law requires that all State Treasury owned refineries be incorporated into a new Polish Sugar Holding (PSH) entity owned by farmers and industry workers. However, due to legal disputes, PSH has not yet been fully formed because some of the companies had previously set contractual arrangements with foreign investors.

The average Polish sugar refinery processes approximately 3,000 tons a day compared with 12,500 tons in the Netherlands, 10,500 tons in Austria, 9,140 tons in Denmark and 7,685 tons in the rest of the European Union. Twenty-five percent of the beet crop is processed in the 9 largest refineries. Over ten percent of the refineries could be shut and production could still reach 2 million tons annually which would more than fulfill domestic needs. Some experts believe that half of all refineries could be closed and production would still be sufficient to fulfill domestic demand. There are 22,000 people employed in Poland's sugar industry. The government is reluctant to push radical restructuring of the industry given current high national unemployment (18 percent) and a lagging economy.

## **Consumption**

Polish sugar consumption has remained virtually unchanged since 1994. Sugar consumption in Poland was approximately 44.8 kilograms per capita (raw value) in CY 2000. Total domestic sugar consumption is estimated to be 1.73 million tons. The Institute of Agricultural Economics estimates that total direct sugar consumption in households and restaurants/cafeterias, estimated at 940,000 tons (1.0 2 million tons raw value) in CY 2001, will marginally increase in 2002 due to low sugar prices. Industrial sugar consumption is also expected to increase slightly to around 613,000 tons (666,331 tons raw value) as production of products containing sugar will slightly increase. As a result of foreign investment, fruit and vegetable juice, beer, chocolate and ice cream production have experienced relatively strong growth in recent few years.

Besides beet sugar, Poland produces honey, glucose and starches. So far, there has been little substitution among these sweeteners for beet sugar on the Polish market. However, iso-glucose production increased last year due to expanding capacity at a new new Cargill facility.

## Production of Non-Sugar Sweeteners, 1999-2001 (1000 metric tons)

	CY 1999	CY 2000	CY 2001
Honey	10.0	9.0	9.0
Starch syrup, form potatoes	18.0	25.0	25.0
Starch syrup, form grains	45.0	N/A	N/A
Glucose from potatoes	2.0	3.5	2.0
Glucose-Fructose syrup	9.9	24.6	31.5

In 2000, iso-glucose production reached 23,600 tons, and during the first 10 months of 2001, 27,500 tons. Polish iso-glucose production capacity reached 80,000 tons in CY 2000 and was expected to reach 120,000 by the end of 2001. If such capacity is fully utilized, it would be equivalent to approximately 84,000 tons of white sugar which could reduce some demand for beet sugar.

Until 1996, starch had been produced in Poland only from potatoes. Now grain (wheat and corn) are also utilized.

## Centrifugal Sugar Price Table

Prices Table			
Country	Poland		
Commodity	Centrifugal Sugar		
Prices in	zlotys	per uom	kilogram
Year	2000	2001	% Change
Jan	2.18	2.14	-1.83%
Feb	2.28	2.12	-7.02%
Mar	2.29	2.1	-8.30%
Apr	2.29	2.09	-8.73%
May	2.35	2.08	-11.49%
Jun	2.58	2.15	-16.67%
Jul	2.81	2.09	-25.62%
Aug	2.86	2.08	-27.27%
Sep	2.74	2.07	-24.45%
Oct	2.27	n/a	-100.00%
Nov	2.13	n/a	-100.00%
Dec	2.13	n/a	-100.00%
Exchange Rate	4.08	Local currency/US \$	



Note: the above are wholesale prices for white sugar, VAT not included.

## **Trade**

In MY2002/03 Poland is expected to have limited exportable sugar supplies for the second consecutive year. Despite the subsidy program, estimated MY2002/03 exports will be only around 100,000 tons. While low, this amount is 25,000 more than estimated for the current year. Forecast exports will be only slightly higher than imports.

For CY 2001, preliminary data indicate sugar exports of 318,491 tons (293,000 tons of white sugar) with an average price of USD 280 per ton. CY 2001 exports dropped by 32 percent due to smaller sugar production. Subsidized exports were close to 104,400 tons (113,482 tons of raw sugar) during CY 2001. Each kilogram of sugar sold domestically during MY 2001/02 is taxed three percent to pay for export subsidies in CY 2002, a level unchanged from the previous two years.

In 2001, the largest customers for Polish sugar were the countries of the Former Soviet Union, which accounted for 82 percent of total Polish sugar exports. CEFTA countries were also significant buyers (15 percent) of Polish sugar in CY 2001. Despite oversupply in Poland, significant sugar imports were reported during the last two years. These imports increased in CY 2001 to 61,954 tons raw value from 57,000 tons in 2000, because of relatively low sugar prices on the world market. Imports were mainly from EU countries (67 percent) and CEFTA countries (27 percent).

**Centrifugal Sugar Import Table**

Import Trade Matrix			
Country	Poland		
Commodity	Centrifugal Sugar		
Time period	Jan-Dec.	Units:	metric tons
Imports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Germany	41632	Germany	38919
Austria	5543	Czech Republic	5588
Romania	5000	Romania	4450
Hungary	3696	Slovakia	5190
Netherlands	1848	Netherlands	271
Czech Republic	1522	Mauritius	95
		Kazakhstan	2281
		France	55
		Denmark	54
		Argentina	24
Total for Others	59241		56927
Others not Listed	761		
Grand Total	60002		56927

Note: the import table reflects official (Main Statistical Office) CY 2000 trade and preliminary trade data for CY2001.

**Centrifugal Sugar Export Table**

Export Trade Matrix			
Country	Poland		
Commodity	Centrifugal Sugar		
Time period	Jan-Dec.	Units:	metric tons
Exports for:	2000		2001
U.S.	0	U.S.	105
Others		Others	
Uzbekistan	147180	Ukraine	150264
Russia	66851	Uzbekistan	48697
Ukraine	64459	Russia	24506
Moldova	43154	Czech Republic	13920
Belarus	22283	Slovakia	13234
Afghanistan	14783	Romania	10965
Hungary	11848	Moldova	11414
Turkmenistan	19349	Hungary	4240
Czech Republic	21523	Germany	2418
Slovakia	16740	Kyrgyzstan	2714
Total for Others	428170		282372
Others not Listed	36957		10287
Grand Total	465127		292764

Note: the export table reflects official (Main Statistical Office) CY 2000 trade and preliminary trade data for CY2001.

**Stocks**

Although MY2000/01 ending stocks were at a level of 14 percent of total domestic sugar consumption, this level was often blamed for reduced local market sugar prices and low industry profitability. Low sugar production during the current MY will reduce stocks down to 10 percent of the consumption level by the end of the MY. It is forecast that stocks will further decline down to 9 percent of total consumption in MY2002/03 due to small production. Such low stock levels will probably result in increased sugar prices, which in turn may result in much larger sugar imports.

In addition to sugar stocks held by the industry, significant sugar stocks are also held by the Agricultural Market Agency (AMA). The AMA is responsible for intervention in the market and maintaining government stocks.

## Policy

### **-New Sugar Market Regulation Law:**

As reported in PL2002, dated 01/16/2002, in 2001, Poland developed a new Sugar Market Regulation Law which will regulate sugar, iso-glucose and inulin production starting in MY 2002/03. The law is intended to support domestic beet farmers and the sugar processing sector by developing stable production conditions. The new law institutes sugar intervention rather than minimum prices for sugar, creates a contract and "basic" beet price system, establishes price guarantees for beet producers, requires first ever iso-glucose production quotas starting in MY 2002/03, and limits processing to domestic raw materials for both sugar and iso-glucose.

The new law also contains provisions to create a new national sugar holding company. This new company, owned primarily by beet producers and sugar refinery employees, could control more than 50 percent of local sugar production. This concept was described in PL1012, dated 7/24/2001. However, legal disputes have slowed creation of the company which was not yet established as of early April 2002. Nevertheless, the Council of Ministers in March 2002 endorsed an amendment which would foster creation of the Polish Sugar Holding company via a shareholding program which would circumvent current ownership issues.

The new law is designed to assure beet farmers that the majority of domestic sugar demand will be met by domestically produced beet sugar. Therefore, we do not foresee that the new law will result in significant change in sugar production or consumption in Poland. Polish government authorities state that the new law is compatible with EU sugar market regulations as Poland's government works toward its hoped for January 2004 EU accession date.

### **-EU Accession Production Quota Negotiations:**

The EU Commission announced the EU accession proposal for all ten candidate countries on January 30, 2002. Poland has requested higher crop production quotas than those proposed by the EU. Concerning refined sugar, the EU proposes a sugar quota of 1,665,017 tons (1,590,533 tons A quota and 74,484 tons B quota) while the EU reported that Poland requested a 1,866,000 ton quota (1,650,000 tons A quota and 216,000 tons B quota). For iso-glucose, the EU proposed a quota of 2,493 tons (all A quota) while Poland was reported by the EU as having requested a total 20,000 ton quota (15,000 tons quota A and 5,000 tons quota B).

Poland and the EU enter into what they hope is the final phase of pre-accession agricultural negotiations this summer. These negotiations should end no later than December 2002 if Poland is to join the EU by 2004. The EU Commission has expressed little flexibility regarding their production quota proposals as well as their plan to only offer acceding country farmers a 25 percent direct subsidy payment level in 2004 with a 10 year transition until they reach 100 percent equivalency with current EU farmer's direct payment levels. Poland and other EU candidate countries strongly objected to the EU Commission's proposal. In Poland, there are also vigorous industry (producer and users) efforts to encourage the Polish government to seek much higher iso-glucose quota levels.

**-Tariffs:**

The Polish Government protects domestic beet and sugar production by applying high tariffs on imported sugar. Many products with high sugar content have an additional tariff assessed, based on the level of sugar contained in the product.

The basic tariffs effective for CY 2002 are as follows::

Tariff No.	Description	MFN Countries	EU	Developing Countries	Least Dev. Countries
1701	Sugar 1/	96%, min. 0.43 EUR/kg	96%, min. 0.43 EUR/kg	96%, min. 0.43 EUR/kg	96%, min. 0.43 EUR/kg
1702	Other sugars 2/	40%, min. 0.17-0.48 EUR/kg	40%, min. 0.17-0.48 EUR/kg 2/	40%, min. 0.17-0.48 EUR/kg	40%, min. 0.17-0.48 EUR/kg
1703	Molasses 3/	40%, min. 0.17 EUR/kg	40%, min. 0.17 EUR/kg	40%, min. 0.17 EUR/kg	40%, min. 0.17 EUR/kg
0409	Natural Honey 4/	42%	42%	42%	42%

1/ 65,285 tons tariff rate quota applies for MFN countries with reduced tariff down to 40%, minimum 0.17 EUR/kg of which 32,500 tons is assigned only for imports from EU. Under the Central European Free Trade Agreement (CEFTA), cane sugar and raw centrifugal sugar imported from the Czech and Slovak Republics face a 40% tariff but no specific minimum tariff. In CY 2002, the TRQ for sugar imports from Hungary is 10,000 tons of raw beet sugar at 35% while Romania receives a TRQ for 10,000 tons of raw beet sugar and 5,000 tons of white sugars, both at a 15% tariff.

2/ 317.7 TRQ is in effect for all CN 1702 30/40/90 categories in 2002 with 40% tariff or minimum 0.17 EUR/kg for all MFN members. Chemically poor fructose and maltose, with coding PCN 1702 50 and 90, have a reduced tariff of 10 percent or minimum 0.04 EUR per kg if imported from the EU and Farrow Islands. Also, various tariff advantages apply for lactose, fructose and maltose imported from selected CEFTA countries, Lithuania and Latvia.

3/ In 2002, molasses imported from CEFTA countries have a reduced tariff of 14 percent and from Latvia of 5 percent.

4/ In 2002, there is a tariff rate quota of 340 tons of honey with a reduced tariff of 35 percent for WTO countries.

A large number of products containing sugar (tariff headings 0811, 1704, 1806, 1905, 2006, 2007, 2008, 2009 and 2105) have, in addition to the basic tariff, an additional duty for sugar contained in the product (DCC). DCC is calculated according to the following formula: DCC = 0.0017 EUR, 0.0049 or 0.00085 EUR per 10 grams or one percent of sugar contained in each kg of product. A number of EU products are exempt from DCC tariffs.

**-Tariff rate import quotas:**

For CY 2002, the total WTO compliant sugar tariff rate import quota is 65,285 tons with a reduced tariff of 40 percent, minimum 0.17 EUR/kg. Since 2001, within the WTO permitted quota for sugar, a portion is only designated for the EU. Within the total TRQ of 65,285 tons for beet or cane sugar for all WTO countries, 32,500 tons are reserved for imports from EU countries for CY 2002. Under the Central European Free Trade Agreement (CEFTA), there are significant sugar import tariff quotas: 10,000 tons for Hungary at 35 percent tariff and 15,000 tons for sugar from Romania at 15 percent tariff.

**- Export subsidies:**

Poland's WTO commitments allow for certain quantities of subsidized sugar exports. The level of sugar exported with subsidies was scheduled to decrease each year until the year 2000. Since then, the level of subsidies agreed to will be the same each year until 2003. Current WTO commitments are 104,400 tons of refined sugar (equivalent of 113,482 tons of raw sugar) at a maximum total subsidy value of USD 32 million. Quotas also include iso-glucose and inulin as of 2003. Subsidized exports are paid for with money collected from taxes on domestically produced sugar, iso-glucose and inulin. Such taxes are 2% of the intervention sugar price for sugar produced within quota A and 32% of the intervention price of sugar produced within quota B (sugar for export).

**Marketing**

Products covered by quotas are allowed to be imported only under specific conditions. The annual quota (PCN 1701) is split into equal quantities each quarter of the year and quarterly quotas are allocated for importers distributed equally among applying importers. In the case of "other sugars" (PCN 1702), the size of individual import permits within the tariff rate quotas is limited to up to a maximum of 20 tons.